Book Review

Busted: Life Inside the Great Mortgage Meltdown

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Author: **Edmund L. Andrews**
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"If there is anybody who should have avoided the mortgage catastrophe, it is me," opens Edmund Andrews, a self-described fiscal conservative and economics reporter for *The New York Times* whose regular beat includes covering the Federal Reserve. Andrews wrote several articles for *The New York Times* in 2004 about the spike in "go-go" mortgages. He also covered the Asian financial crisis of 1997, the Russian meltdown of 1998, and the dot-com collapse of 2000. Yet, as in gambling at a casino, it is amazing how people can get caught up in a tragic spiral even though they supposedly know better. In 2009, Andrews was facing foreclosure on the mortgage on his home. He was not duped by any lenders or brokers, he just found himself "underwater." In *Busted: Life Inside the Great Mortgage Meltdown*, Andrews writes about the origins of the financial crisis, how he became a victim, and what he went through to try to survive the nightmare.

The book opens in February 2009, with the author 4 months past due on his mortgage debt and bracing for foreclosure. Like a good movie, *Busted* then proceeds by taking us backward several years and telling a story about how this average suburban homeowner became one of the 3 million plus U.S. mortgage holders who wound up in trouble. The book is written as a first person narrative story, but placed in the time period leading up to and including the current financial crisis. We are introduced to the actors that helped to approve and underwrite the mortgage: mortgage brokers, real estate appraisers, Wall Street securitizers, credit rating agencies, and institutional investors. As in many families, it started with desire—desire to end a first marriage and buy a home with a new partner, even though Andrews' name was still on a mortgage with his first wife.

As Andrews' first marriage was breaking up, he fell in love and needed to begin life anew with a second wife and stepchildren. It took less than 4 hours total from house hunting to mortgage closing, including 45 minutes to sign loan documents. As he confessed how much of his income from the newspaper beat went to alimony and child support, he received help from a mortgage "buccaneer" not unlike those who placed advertisements on late night television. "I am here to enable dreams," stated his mortgage broker from American Home Mortgage Corporation, one of the fastest growing mortgage lenders in the U.S. (that later went bankrupt in 2007). Andrews discovered that your past history of managing credit, as measured by your FICO score, is more important to approving a mortgage than your current ability to pay it back, as measured by debt-to-income ratios and your individual circumstances of life.

In a chapter titled "Prudence for Losers," the author reminisces about signing his loan papers in late August 2004 as Merrill Lynch's chief North American economist published a report about housing bubbles, with prices out of sync with values. Americans were using their houses as ATM machines because their incomes could not keep pace with their demands for consumption goods. As it turned out, top executives at Merrill Lynch and top economists at the Federal Reserve dismissed complaints about the twin speculative bubbles in housing and mortgage lending. Then President George W. Bush was proud of his no-money down American Dream Downpayment fund to boost homeownership—the "ownership society"—which it did to a record 69.2% of occupied homes by 2004.

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Between the first-person narrative, we learn much about the housing industry, types of mortgages, interest rate policies, securitization, financial regulation, and economic policy. For example, housing prices grew about 1 percentage point faster than inflation for much of the past century, then climbed 52% from 2000 to 2004, a historical aberration. Fueled by historical low interest rates led by Federal Reserve decisions after the 2001 recession, Americans kept purchasing more and more expensive homes.

Interest-only and low-doc (documentation) loans first emerged in land- and housing-scarce southern California in 2003 and 2004. This fed the rise of "go-go" lenders, some subsidiaries of well regarded companies such as Lehman Brothers, GMAC, and H&R Block. Other firms, such as Countrywide Financial, started a subprime lending business in 2003, offering credit to those with a checkered credit history. Ditech, owned by GMAC, was a pioneer in eliminating the requirement for collateral. They also offered loans without any down payment. Finally, loans were offered at an amount greater than 100% of the value of the house. All three of these legs of the mortgage stool were hewn at the same time. Although interest rates were historically low, the percentage of families who could be approved for traditional fixed rate mortgages was dropping because home prices were climbing so rapidly. By 2006, subprime loans were a key part of the mortgage market. Bundled in packages called collateralized debt obligations, these still received high AAA ratings by Moody's Investor Service and Standard and Poor's.

When the author visited an ATM machine one day in January of 2005, he saw that his bank balance was all of $196. Like millions of Americans in a similar situation, he managed debt by obtaining newly-issued credit cards, drawn in by low initial "teaser" rates. He took out a loan from his 401(k) plan. Then, with ballooning credit card balances, Andrews kept consolidating his debt on one card, then two, then three. He cut back on car insurance, the collision option, only to subsequently have the family car in an accident on the day of his planned wedding to his second wife. With about $50,000 in credit card debt, he refinanced his home—with a subprime lender—to pay off the debt, obtained tax-deductible home loan interest, and improved his FICO score while adding more household hours into the labor market to increase take-home pay. He did everything to avoid defaulting on his mortgage, just as the mortgage brokers who took these calculated risks expected. This cycle has similarly been practiced by millions of homeowners just like him.

When it rains, it pours for families facing a financial meltdown. Personal financial crises are often brought on by a severe illness, disability, or the loss of a job. In *Busted*, it is the firing of the author's beloved new spouse in October 2006, from a $60,000 job that has a devastating blow. The couple relied on proceeds from cashing in her 401(k) and unemployment compensation that ran out in 6 months. They also borrowed from a parent against a future, small inheritance.

Upon confessing to former Federal Reserve Chairman, Alan Greenspan, about his financial troubles, the two had a conversation about alleged criminal fraud by borrowers, lenders, or both. There was plenty of fraud to go around, but should the government have prevented people from borrowing money they could not repay in the first place? Why did no one stop lending based on the faith that debtors will repay?

The chapter about meeting a very engaging Greenspan for the first time in 2003 and discussions with him over the years about how the Fed's low interest rates helped to fuel the housing market and the increase in American household debt is informative. So, too, is the analysis of federal regulation during the Greenspan era, the concerns about mortgage companies relying on too much leverage to garner as much as a 25% rate of return, and the perception of Fannie Mae and Freddie Mac that evolved from bloated goat with "too much" of a share of the mortgage market to a government-backed knight in shining armor in 2009.
For a while it seemed like the demand for junk loans was insatiable. On July 10, 2007, 9 months after the Andrews household suffered an unemployment spell, Standard & Poor's and Moody's downgraded $13.5 billion of bonds from over 1,000 different bond issues, less than 1% of the securities backed by junk mortgages. It set off a chain reaction, though Moody's stood firm on their "improved" ratings methodologies and their ratings of other previously-issued securities. The stock market dropped precipitously. Soon money dried up for all kinds of mortgages, and then debt that was unrelated to housing, such as for purchasing a new car or starting a new business. Moody's was still trying to assure people that this was not a real financial collapse.

By August of 2007, it was no longer possible to continue denying the obvious. The Federal Reserve announced a dramatic expansion of its emergency loan program for banks. The Fed kept a loose money supply through a variety of sequential measures, employing hardly-used and novel tools

in its toolkit. As Andrews relates, smart investors had been quietly short selling subprime mortgages. The ratings agencies, who profited handsomely from their business in subprime lending, did not show remorse until late 2007.

The author confesses that his two worlds started to collide in August of 2007: the professional one that reported on the nation's subprime mortgage crisis and the personal mortgage (and new marriage) crisis of his own. In his own words, "Under normal circumstances, I would have loved nothing more than to ride this bull of a story. A banking system that had all but shut down. Wall Street in ruins. Greed, sleaze, and a president who kept insisting that the 'fundamentals of the economy are sound.' For an economics reporter it doesn't get any better than that. Yet it was hard to be exhilarated by a national meltdown when I was in the middle of a personal one" (p. 169). His mortgage had been hovering at 30 days delinquent, all of his other bills were late, and bill collectors were phoning regularly. It was time for the family to review all of its options just as all national policy options were poured over. Rent the house? Sell the house? Let the bank foreclose and walk away? The mortgage was equal to $472,000. With falling housing prices and a sales commission to sell, the rental option looked better. But again, with falling home and rental prices, no alternative was attractive. With Andrews' alimony payments to his first wife scheduled to end in 6 months, the family opted to try and stay in the house, like most Americans underwater with their homes did.

Andrews argues that America's mortgage crisis had been brewing for at least 25 years, the result of a trend toward higher debt and greater speculation. Many really smart people played a role in the creation and blessing of complex financial instruments and consumers took gambles with unreasonable risk. Everyone looked the other way and ignored prescient warnings, including agencies and branches of the U.S. government, which denied any fundamental problem with the financial system in what Andrews calls "malign neglect."

Andrews does not apologize for his actions. Adults are responsible for their decisions. He does not expect homeowners to apologize to the lenders and other players in the giant housing bubble Ponzi scheme either. Mortgage lenders aimed their most baffling products at customers least likely to understand them, he asserts. The author ultimately seeks a balance between free markets and consumer protection or regulation of the financial system.

The book is a very entertaining read. It contains thirteen relatively short chapters (217 pages in all). *Busted* allows readers, from financial novices to experienced investors, to learn vocabulary about economic and financial literacy. It also describes key corporate and governmental bodies and their leaders in the roller coaster ride up to the top of the housing bubble to when the bubble burst.

Students like personal stories and would be thoroughly entertained by *Busted*. The book is appropriate for high school and college/university economic and finance students. Financial educators and credit counselors may want to use the book to show that everyone can be susceptible to financial crises and to demonstrate the pitfalls of risk.

Was Andrews able to keep his house? During Christmas of 2008, the mortgage holder, JPMorgan Chase by that time, wrote that they preferred not to begin foreclosure proceedings. The author was warned again about the delinquency problem. The couple did not qualify for loan modification. By January of 2009, when a new president was sworn in, falling home prices had wiped out $6 trillion in wealth since the bubble's peak in 2006. Stock prices had fallen 40%. The U.S. was in recession.

As the book ends, the couple's financial crisis is costing them their marriage. The reader is left wondering about both the marriage and the house. Andrews, meanwhile, has estimated that he would have been $128,000 wealthier if he had not purchased the home in the first place. By the time the book was to be published in May 2009, now eight months delinquent, Andrews wrote a column for *The New York Times* in which he says that the bank had not yet foreclosed as Chase was severely backlogged with other foreclosures. I attempted to locate the sales figures for this book but was unsuccessful. I suspect that in 2010, Edmund L. Andrews, the author of *Busted*, is fully caught up on his mortgage payments.